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UNCLAS KATHMANDU 002308

SIPDIS

SENSITIVE

E.O. 12958: N/A

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SUBJECT: FINANCIAL CRISIS IN NEPAL OIL CORPORATION

DEEPENS: PETROLEUM SUPPLIES MAY BE AFFECTED

(CORRECTED COPY)

REF: KATHMANDU 02210

¶1. (SBU) Only three weeks after averting a financial crisis, the state-owned monopoly oil importer Nepal Oil Corporation (NOC) has again defaulted on payment to its supplier Indian Oil Corporation (IOC). Nepal's Ministry of Finance (MOF) and Nepal Rastra Bank (NRB) last averted a petroleum supply problem in Nepal in September by lending NOC USD 17.5 million to pay off the petroleum import bill owed to IOC (reftel).

¶2. (SBU) According to reports published on October 20 in the local media, NOC owed a total of over USD 27.39 million to IOC for October's petroleum imports. Umesh Prasad Dahal, Marketing Director for NOC, told EmbOff that as of October 15, NOC's outstanding debt to IOC was over USD 27.39 million. NOC made a partial payment of over USD 10.9 million on October 15, buying a few days' time from IOC to settle the remaining balance of more than USD 16.4 million. Dahal further added that the matter had been referred to the Ministry of Industry, Commerce, and Supplies, as it was increasingly beyond NOC's ability to handle the successive financial crises. According to media reports, NOC's outstanding loans, obtained solely for the purpose of importing petroleum products, have exceeded USD 58.2 million.

COMMENT

¶3. (SBU) Raising the selling price of petroleum products is now the only option left for the government to solve NOC's financial crisis and ensure a long-term solution for petroleum supplies in Nepal. Since the Government of Nepal's recent proposals to hand over internal distribution of petroleum products to the private sector received a cold response from the private entrepreneurs, the government is left with no option other than adopting a politically unpopular but market-based pricing mechanism.

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